Global Investors Following Decline in U.S. Property Values with Growing Interest

Chinese, Germans, Israeli Investors Among the First To Start Eyeing U.S. Properties

By **Mark Heschmeyer**
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While there has been a noteworthy decrease in the amount of cross-border real estate investment in the Americas since the beginning of the economic crisis, new activity is springing optimism that foreign investors are increasing their interest and preparing to re-enter the Americas next year, according to Jones Lang LaSalle's International Capital Group at a presentation this past at the Expo Real show in Munich, Germany.

For the first half of 2009, global investment transaction volumes netted just $76 billion, according to JLL. The United States experienced the largest decline-falling by 77% year-over-year. Japan surpassed the United States and United Kingdom as the most active investor region with $15 billion in transactions in the first half of 2009. The United States was a close second at $14 billion, followed by the United Kingdom with $11 billion.

But the U.S. situation may be improving based on recent news and deals.

China Investment Corp., a $200 billion sovereign fund based in Beijing, last month agreed to invest up to $1 billion with Los Angeles-based private equity fund Oaktree Capital to buy distressed U.S. assets ranging from real estate to infrastructure. China Investment Corp. is also reportedly weighing putting equal amounts into two other U.S. funds for the same purpose.

Action is coming from other countries as well.

"In the last two months, we've seen German and Asian investors increase their interest in U.S. investment," said Steve Collins, managing director of Jones Lang LaSalle's International Capital Group. "Several stateside closings also are providing some early encouragement that foreign investors are slowing rising off the sidelines for the right opportunities in the best markets."

"Right now, the coastal markets such as New York, [Washington, DC], and San Francisco are drawing interest from a select few foreign investors bidding and winning on off-market investments today," Collins added. "It seems the German open- and close-end funds and the Asian development companies are getting ready for an investment push in first quarter 2010."

Also just this week one of Israel's largest holding company, The IDB Group, agreed to purchase the 452 Fifth Avenue Tower, HSBC's U.S. headquarters, for $330 million in an all-cash deal. IDB signed on a New York-based partner Joe Cayre, chairman of Midtown Equities, in the deal that is expected to close early next year. Under the terms of the agreement, HSBC will lease back floors one to 11 for a 10-year term, as well as other parts of the building over a one-year term. The 29-story 452 5th Ave Tower is comprised of approximately 865,000 square feet.

Stateside investment activity started increasing in late summer, according to Jones Lang LaSalle. Notable transactions included the largest U.S. transaction to date in the sale of Worldwide Plaza at 825 Eighth Ave. in Manhattan. Local owner/operator George Comfort & Sons bought the former Macklowe property for $605 million in a joint venture with RCG Longview. Macklowe paid $1.7 for the previously fully leased building in 2007. The purchase reflects a net initial yield of 6.3% on what is now a 40% vacant building. If and when the building becomes fully stabilized in three or four years, the yield will likely be closer to 12%. It is widely believed in the market that the purchaser has new tenants lined up already.

The other significant deal was also in Manhattan: SL Green's sale of its 49.5% interest in 485 Lexington to a joint venture between Gilmore USA and Optibase Ltd (an Israeli technology company). The joint venture paid a little less than $21 million and assumed the $450 million of existing debt on the building. This is Optibase's first real estate purchase in North America as it attempts to diversify its portfolio by investing in commercial real estate. Once the transaction closes, the joint venture reportedly plans to provide SL Green with a $20 million loan secured by an SL Green pledge to sell an additional 49.5% stake.

A little farther down the East Coast in Washington, DC, the large public REIT Vornado sold 1999 K St. NW to Deka's Open Ended Fund for $208 million in the largest DC property transaction this year. The property, designed by Helmut Jahn, was completed just last month and is leased to the law firm Mayer Brown for 15 years. The purchase price equates to $830 per square foot. The last building to trade at such a high level was 2099 Pennsylvania Ave. NW, a Jones Lang LaSalle brokered and closed in April of 2008 that set a high watermark for DC office transactions at $867/square foot.

Another trophy DC market transaction was Credit Suisse's purchase of 1099 New York Ave. NW from Tishman Speyer. It reportedly traded at a 7.4% for $90.5 million ($517/square foot). The building is 61% leased with a major law firm as the anchor tenant. Invesco was also active in D.C. and purchased the newly redeveloped headquarters for the Immigration and Customs Enforcement agency from Prudential Real Estate Investors for $153.6 million. The nearly 500,000-square-foot deal was all